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THE NATIONAL CITY BANK OF NEW YORK

1929

Economic Conditions
Governmental Finance
United States Securities

New York, August, 1929.

General Business Conditions

THE high rate of business activity has been well maintained through July and it can now be definitely seen that there will be no pronounced mid-Summer recession. Confidence and optimism in the business outlook prevail, and the pessimists who have been fearing a major reaction have had to postpone still further the fulfillment of their predictions, even though it be granted that some slowing down may be expected eventually following such an extended period of unusual activity. Production in the steel industry is still running close to capacity, while other basic industries are continuing the new high production records established in the first half year. Wholesale distribution of commodities is in large volume, and no serious accumulation of inventories has come to our attention.

Sustained activity in domestic trade and industry has resulted in full employment of labor and large purchasing power in the form of payrolls, which are estimated to be running 9 per cent larger than one year ago for a broad group of manufacturing industries. There is always some slack, and the latest reports of the United States Department of Labor indicate that there has been a slight decrease of employment in manufacturing plants this Summer, but this is seasonal and is being partly offset by an increased demand for agricultural workers. Industrial disputes have become less frequent and fewer occurred in 1928 than for many years back, with over half of the total number confined to the three states of New York, Pennsylvania and Massachusetts. Farm purchasing power has been expanded by the sharp rise that recently took place in prices of grain and live stock, while the excellent profits this year of most industrial, railroad, utility and financial companies assure good payrolls for employees in these groups, including clerical workers, and will benefit the general investing public as well.

Contracts awarded for new building construction during the first half year were 12 per cent less than in 1928, but preliminary figures for July, which include several large office buildings, are slightly higher than in the same month last year. Considering the conditions in the mortgage money market, the nation's building program is holding up very well. Demand for structural shapes has been a dominant factor in the current record year of the steel industry, and evidence that the country's requirements are expected to grow is seen in the recent announcement by the Illinois Steel Company, subsidiary of United States Steel Corporation, that it will spend approximately $100,000,000 for plant expansion in the Chicago district. This single project will add about 1,500,000 tons or 2½ per cent to the plant capacity of the country as a whole. Railroad buying of steel has been somewhat backward in the last year or so, but purchases of locomotives and freight cars are again picking up and the heavy Autumn traffic that is predicted by the American Railway Association and the regional Shippers Advisory Boards will doubtless tax the present rolling stock to the maximum.

Gain in Business Profits

An outstanding feature of the month was the favorable showing of earnings statements that were published covering the first half year. Combined net profits of 284 companies engaged in various lines of manufacturing and trade were 33 per cent higher than in the corresponding period of last year. Net income of the railroads as a group gained 21 per cent and set a new high record, while public utility systems gained 18 per cent. Following is a tabulation of over 600 leading corporations, classified according to lines of business, which in the first six months of 1929 reported aggregate net profits of $2,083,823,000 compared with $1,674,888,000 in the same period of 1928, representing a gain of 24 per cent.

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CORPORATION SEMI-ANNUAL REPORTS
Net Profits-000's omitted

No.	Industry	Six Months 1928	1929	Per cent Change
4	Amusement	$ 5,294	$ 7,930	+ 49.8
10	Apparel	5,373	6,008	+ 11.8
15	Automobile	216,857	226,267	+ 4.3
22	Auto Accessories	21,919	29,528	+ 34.8
2	Aviation	1,009	1,677	+ 65.2
8	Building Materials	6,701	10,191	+ 52.0
15	Chemicals	62,694	77,635	+ 23.8
10	Coal Mining	3,463	4,612	+ 33.1
7	Copper	6,459	12,653	+ 96.0
10	Electrical	41,533	56,654	+ 36.4
10	Flour and Baking	19,617	22,680	+ 15.6
14	Food Products	40,195	42,833	+ 6.6
11	Household Goods	12,894	15,026	+ 16.5
23	Iron and Steel	85,084	172,809	+103.0
7	Leather and Shoes	10,210	5,714	— 44.0
13	Machinery	11,925	17,723	+ 48.5
13	Merchandising	13,437	16,733	+ 24.5
8	Metals, non-ferrous (exc. copper)	5,694	7,618	+ 33.9
6	Office Equipment	9,587	12,694	+ 32.5
3	Paint and Varnish	1,741	2,808	+ 61.2
21	Petroleum	33,246	55,367	+ 66.6
4	Printing and Pub.	13,580	15,195	+ 11.9
3	Railway Equipment	5,279	8,173	+ 54.8
4	Restaurant Chains	2,681	2,198	— 18.0
2	Rubber	D1,909	12,397	+ —
6	Textiles	1,616	3,726	+131.0
7	Tobacco	5,374	6,258	+ 16.5
26	Miscellaneous	13,131	18,737	+ 42.7
284	Mfg. and Trading	654,484	871,844	+ 33.2
183	Railroads	462,025	560,862	+ 21.4
98	Tel. and Tel.	127,921	P141,595	+ 10.7
85	Other Utilities	430,458	P509,522	+ 18.4
650	Grand Total	$1,674,888	$2,083,823	+ 24.4

D—Deficit. P—Preliminary.

A collection of such a large number of companies embracing most of the major industries gives a broad and fairly representative picture of American business. Of the 28 classifications of manufacturing and trading companies, every group but two shows an increase in profits in the first half of 1929 over the corresponding period of 1928. A most impressive showing was made by the 23 iron and steel companies, whose combined earnings increased from $85,084,000 to $172,809,000. United States Steel Corporation reported net profits of $96,011,000 contrasted with $47,205,000 last year. The corporation recently offered 1,016,605 additional shares at $140 to its stockholders, part of which is to be used in retiring bonded debt, as a result of which the interest charge on this borrowed capital will be eliminated from its earnings statements to be issued in the future, but this change does not affect the comparative statements for the first half year. Bethlehem Steel Corporation, second largest producer in this country, increased its half year's profits from $7,914,000 to $20,812,000 and has just raised the dividend rate on the common stock from $4 to $6 per share. Every other company in this group, which represents over 85 per cent of the steel industry, reported an increase in earnings over last year.

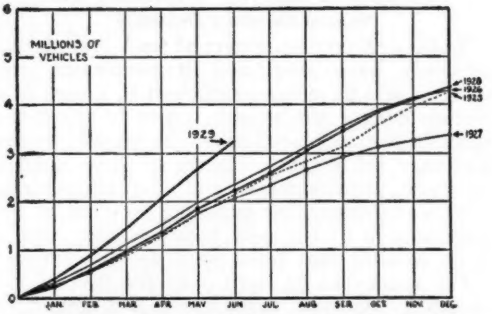
An unusually favorable showing is made by the petroleum group, in which the combined earnings of 21 companies increased from $33,246,000 to $55,367,000. Although no semi-annual reports are published by most of the so-called "Standard" companies and a number of other large producers and refiners, nevertheless such figures as are available point to better returns for the oil industry, despite the problem of overproduction which tends to offset the benefit of a steady growth in consumption of refined products. Other industries showing a better than 50 per cent increase in profits this year include aviation, which is making rapid strides in both manufacturing and transportation; copper mining, which is receiving the benefits of 18 cent copper compared with 15 cents one year ago; railway equipment, which is becoming active after a prolonged period of quietness; and tire manufacturers, whose 1928 operating profits were cut sharply by inventory adjustments on account of the decline in crude rubber that occurred.

Although the automobile industry has the largest earnings of any group in the tabulation, it did not contribute an important share of the increase this year. General Motors Corporation reported net profits of $151,860,000 as compared with $161,268,000 last year, the decrease having been largely caused by manufacturing changes in connection with new models. Of the other fourteen companies in the group, eleven had higher earnings than last year while three were lower. Ford Motor Company is not included, as it publishes only a balance sheet once a year. Accessory and parts manufacturers reported better earnings than last year with few exceptions. Lack of space prevents discussing each of the groups in detail but a study of the composite statement will reveal that the record activity of general business this year has been translated into substantially increased earnings for such diverse lines as amusements, chemicals, electrical apparatus, milling and baking, metals, office equipment, paints and varnishes, printing and publishing. Merchandising and tobacco products continued their standard rate of growth. Of the few textile reports that have been issued, the trend was upward in cotton, silk, rayon and miscellaneous products, while reports from the makers of wearing apparel are mixed, with the current half year's total slightly higher. Leather tanners suffered from a drop in hide prices this Spring, although the shoe business is understood to have been quite satisfactory. Coal mining conditions are slightly improved.

A Record Automobile Year

Production of automobiles and trucks is running somewhat under the rate of the Spring months but the decline is largely seasonal, being incident to preparations for bringing out new models and increasing output in the Fall.

For the first half of the current year production of passenger cars and trucks in the United States amounted to 3,223,090 which was 46 per cent higher than in the corresponding period of 1928 and well above all previous years. On an accompanying chart is shown the cumulative monthly production which would indicate a new high record in 1929 of perhaps 5,500,000 vehicles even allowing for a moderate recession during the remaining months.



Production of automobiles and trucks in the United States, as shown by cumulative monthly totals.

Of the increase in production this year the new Model A Ford has contributed a large share. Assembly of this car was begun on December 2, 1927 and by the end of twelve months a rate of over 6,000 daily had been reached, with an aggregate production during the period of over 733,000 cars. Since that time the rate has been further built up and by the first of February, 1929, the aggregate passed the 1,000,000 mark. Thus a space of only fourteen months contrasts with over seven years that was required for the old Model T to reach the 1,000,000 mark. Less than seven months later the new model passed its 2,000,000 mark.

Unquestionably the expansion of Ford production has increased competition in the lower priced field, but it is hard to recall a time when competition in the industry has not been keen, and it is worthy of note that in the current year new high records have been made by the Chevrolet of General Motors, and some other light cars as well. Among the higher priced cars the competition of the Ford has also been felt indirectly by affecting the value of trade-ins which are an important factor in the sale of new cars. Foreign demand for American automobiles continues its steady increase, part of which, however, is being met by the numerous assembly plants and factories that have recently been established abroad, whose output will to some extent replace shipments that were formerly made from this country and appeared in our export trade statistics. Grave concern about one phase or another of the motor industry has been expressed from time to time for years back, but the past record of leading companies and their present strong financial position support confidence that the industry will be quite able to look after itself in meeting competition, regulating production and solving new problems as they arise.

Tire production has been establishing a new high record and is about 18 per cent larger than last year to date, but the substantial stock of tires and tubes on hand, combined with a cut in prices by important distributors, have brought a ten per cent curtailment of operations in the Akron district as a corrective measure.

Money and Banking

The money market has been generally tight during July. Coming after the slightly easier trend of June this has been a disappointment to those whose hopes for permanently easier money had been raised prematurely. Nevertheless, no real concern has been in evidence, despite call rates ranging as high as 12 to 15 percent. Borrowers have felt confident that the banks would be able and willing to take care of the situation and that the exceptional stringency would be short lived. Stock speculators have continued to reassure themselves with the belief that money will be easier "next week" or "next month," and stock prices have risen rapidly to new high levels in the face of tight money.

Opening the month at 10 per cent, call money rates fluctuated over an extreme range of 6 to 15 per cent. Only once did the rate fall as low as the minimum of 6, while twice it reached the maximum of 15. On four days it touched 12 per cent, on five days 10 per cent, and on nine days 9 per cent. For a period around the 18th to the 24th rates declined to 8 and 7 per cent, only to be followed by a renewed run-up to 10 per cent as the month came to a close.

The time money market was firmer in sympathy with higher call money, and rates which since May had fallen from 9 to 7½ per cent advanced to 8½-9 per cent.

Contrasting with wide fluctuations in Stock Exchange money, rates for commercial money have shown little change. In general, these have continued stabilized around 6 per cent in the principal money centers, and little chance is seen for a weakening of this rate so long as general business continues as active as at present. The volume of funds available, however, is adequate for all purposes, and business is not now having, nor likely to have, any difficulty in supplying its short term requirements. Thanks to the facility with which stock issues have been taken up, the same has been true by and large as regards industry's permanent capital requirements, though whether this immunity from the effects of credit strain can be continued indefinitely in

the absence of a bond market remains to be seen.

Bankers' acceptance rates have continued to move apart from other rates, two reductions of 1/8 of 1 per cent having been put into effect during the month which brought the offering rate on 90-day bills down to 5 1/8 per cent against 5 1/2 per cent in June and a peak of 5 5/8 per cent touched for a brief period in March. The case of bank acceptances, however, is exceptional, in that foreign funds, which are a large factor in the bill market, do not flow readily into other types of short term investments. Even at the present reduced level, the bill rate remains in the unusual position of being above the bank rate.

Credit Demands at Peak

Explanation of the high call rates of the past month appears in a combination of unusually heavy demands upon the money market during the period. Commercial demand has been very active, in keeping with the high level of business. This is seen in the steady increase in the commercial loans of the weekly reporting member banks. In the four weeks ended July 24 these increased by over $100,000,000 to $9,287,000,000 marking a new high level for the year and an increase of $365,000,000 over the total on the corresponding date a year ago. Not since the 1920-21 period of inflated prices and expanded inventories has the volume of commercial borrowing been as high as it is today with price and inventory inflation conspicuously lacking.

Along with the strong commercial demand has been the revival of activity and strength by the stock market which has carried prices of numerous issues to new high levels, with an accompanying increase in the demand for credit. Within a little over a month the volume of brokers' loans placed by New York banks for their own account, for correspondents, and for "others" has expanded by over $600,000,000, not only cancelling the half billion or more of loan decrease sustained during April and May, but at $5,908,000,000 overtopping by more than $100,000,000 the previous peak for all time reached on March 20.

Not all of this increase, it should be stated, was due to ordinary speculative operations. During June and early July corporation shareholders were called upon to pay in approximately a billion dollars to corporation treasuries in the exercise of "rights" to subscribe to new capital, the new funds to be used in some cases to retire bonded debt and in others to expand capacity. Undoubtedly the taking up of these "rights" tended to swell brokers' loans at least temporarily.

Following is a table which compares brokers' loans of New York banks, according to whether for own account, for correspondent banks, or for "others" during recent months and over the past year:

LOANS OF NEW YORK BANKS TO BROKERS
(000,000's omitted)

	July 24 1929	July 3 1929	June 5 1929	July 25 1928
For Own Account	1,193	1,255	837	824
For Correspondent Banks	1,680	1,580	1,513	1,537
For "Others"	3,034	2,934	2,934	1,824
TOTAL	5,907	5,769	5,284	4,185

Influence of Mid-Year Settlements and Special Currency Demands

Thus ordinary commercial and speculative demands have continued at maximum, and alone would have been sufficient to insure firm money during the month. Add to them the special burdens placed upon the market by the mid-year settlements, Fourth of July holiday currency requirements, and the temporarily increased demand for currency incident to the introduction of the new paper money, and it is no wonder that rates went to high levels.

For money to be tight over the first of the month is no new experience, and generally traders look for more than the usual stiffening at the first of July. On that date interest and dividend disbursements are unusually heavy, and are followed closely by the July 4 currency demands which commonly expand the total circulation by as much as $90,000,000 over the holiday. As this represents a withdrawal of cash from the banks the effect is to tighten the market.

Ordinarily, these movements of funds are completed by July 10, permitting a prompt restoration of normal money conditions, but this year the stringency was prolonged and intensified by the issuance of the new paper currency which created a curiosity demand and caused an increase of money in circulation at a time when there is usually a decrease.

The accompanying table shows money in circulation by weeks over this period as nearly as may be estimated from the Federal Reserve and Treasury reports.

CIRCULATION OF MONEY
(000,000's omitted)

June 5	$4,674
12	4,627
19	4,626
26	4,631
July 3	4,759
10	4,815
17	4,748
24	4,707

The table shows the normal increase in circulation to a peak just prior to the July 4 holiday. Then, however, instead of decreasing in the succeeding week as in former years, the total on July 10, the date of the first issues of the new currency, rose an additional $56,000,000 to a new peak, making the net circulation on that date about $100,000,000 above normal requirements. Even in the later weeks, the total, though showing some reduction, has

proved unusually slow in returning to normal proportions, and near the close of the month it was estimated that the aggregate outstanding was still some $90,000,000 in excess of normal.

Banking Aid to Market

During this period of unusual demand the banks have extended funds in large amounts to the money market, even though to do so has meant substantially increasing their indebtedness at the Reserve banks. This does not mean, however, any change in the attitude of the banks towards continued credit expansion, or imply that banking funds henceforward can be counted on as a means of bolstering up security prices. Nor is it to be interpreted as indicating any disregard on the part of the banks of the cardinal principle that Federal reserve funds shall not be borrowed for the sake of relending at a profit. It means simply that the banking system is functioning in the elastic manner intended when the Federal Reserve Act was passed. In times of unusual credit demands such as occur from time to time bankers see it as an obligation on their part to avail themselves of the Federal reserve funds at their disposal to tide over the period of strain and thus avert, insofar as lies within their power, the extremes of rates which are destructive of business confidence. By the same token, however, they expect that when these unusual demands are satisfied they shall be able to recover the credit which they have temporarily advanced, and thus reduce their voluntarily incurred indebtedness at the Reserve banks. It is not intended that funds advanced at such times should become permanently a part of the credit structure.

During the past month the demands upon the money market have been unusually heavy, and the manner in which the banks have responded to the needs of the situation is indicated in the record of member bank borrowings at the Federal reserve banks. During the three weeks ended July 10 these expanded progressively from $959,000,000 on June 19 to $1,017,000,000 on June 26; $1,125,000,000 on July 3, and $1,153,000,000 at the peak on July 10, an increase in all of nearly $200,000,000. Since the New York money market is the reservoir of the country's available funds, it was natural that the weight of these demands should have been felt here most acutely. Consequently, of the increase in total member bank borrowing recorded between June 19 and July 10, practically the entire amount occurred in the New York district. Had it not been for the willingness of the New York banks to go heavily into debt at the Reserve bank in order to supply funds the resultant stringency might easily have become serious.

At the close of July member banks throughout the country were still indebted to the Reserve banks to the extent of $1,064,000,000, and in the New York district alone to the extent of nearly $400,000,000. Hence it is likely that whatever funds these banks can obtain they will be anxious to apply to the reduction of their indebtedness in order to pave the way for handling the crop moving and Fall trade demands soon to reach large proportions. The period, on the other hand, for accomplishing anything important in the way of preliminary liquidation is becoming decidedly short. That the Reserve banks will assist the member banks in financing Autumn seasonal expansion by adding to their holdings of acceptances bought in the open market, and possibly also to their holdings of Government securities, may be confidently expected. Doubtless this will serve to keep the money market on even keel where otherwise an increase of rates would seem inevitable. So long, however, as the demand for credit for business and speculative uses continues to grow as it has in the past it is difficult to see how money can continue otherwise than tight.

Gold Movements

With high money rates ruling in Wall Street, the gold movement to these shores has continued. For the month of July imports, according to the weekly report of the Federal Reserve Bank of New York, amounted to $30,000,000, of which $20,000,000 came from Argentina, and $10,000,000 from London. Exports plus gold earmarked for foreign account, but not shipped, amounted to $21,000,000, making the net gain in monetary stocks of $9,000,000.

The month's excess of imports over exports brings the net inward movement since the first of the year to $183,363,000, which means that the United States has now recovered more than one-third of the $500,000,000 gold shipped abroad during the export movement from May, 1927, to June, 1928. While other financial centers, notably London, have been aided in sparing this gold by the receipt of newly mined gold from South Africa during this period, nevertheless the drain on foreign bank reserves has been severe and has been largely responsible for the general tightening of foreign money rates over the past year.

Following is a table showing the principal changes in foreign central bank rates during the past 7 months:

1929		Per cent
Jan. 7	Italy	5½ to 6
Jan. 12	Germany	7 to 6½
Feb. 7	England	4½ to 5½
Mar. 15	Italy	6 to 7
Mar. 25	Netherlands	4½ to 5½
Apr. 20	Poland	8 to 9
Apr. 24	Austria	6½ to 7½
Apr. 24	Hungary	7 to 8
Apr. 25	Germany	6½ to 7½
Apr. 29	Danzig	6 to 7
May 3	Rumania	6 to 8–9
May 9	Austria	7½ to 8
May 14	Rumania	8 to 9½
July 2	Bulgaria	9 to 10
July 31	Belgium	4 to 5

Money Conditions Abroad

As we go to press it seems doubtful that a further advance in the discount rate of the Bank of England can be avoided. Within a little over a month the Bank's weekly statements have recorded a precipitate drop in gold holdings from £164,200,000 on June 16, when the peak of the Spring recovery in gold holdings was reached, to £150,700,000 on July 25. Since the last statement was published the bank is reported to have lost an additional sum which will bring the total substantially below the level of £150,000,000 which was determined upon by the Cunliffe Committee in 1918 as the normal minimum. It will be recalled that when these holdings reached this minimum in February of this year the bank rate was raised to 5½ per cent. Since the advances by the Bank of England are always made a full one per cent at a time, a change at this time will carry the rate to 6½ per cent. That the authorities in Great Britain will be most reluctant to impose this higher charge upon industry goes without saying, but unless the Bank has some assurance of a change in foreign exchange tendencies in the near future it is difficult to see how an increase in the rate can be avoided.

The position of the leading continental money markets is stronger than that of London. Berlin has benefitted from a considerable inflow of foreign funds, following the advance in the Reichsbank rate to 7½ per cent in April and the successful outcome of the Reparations Conference. Gold holdings of the Reichsbank have increased by 320,000,000 marks, and foreign currency holdings by 287,000,000 marks, while the amount of credit advanced by the Reichsbank in the form of discounts and advances has decreased by approximately 400,000,000 marks from the levels prevailing on comparable dates during May and June. As a further measure of the improvement that has taken place, the Reichsbank ratio of reserve to note liabilities, which, during the panicky period of May, (when it seemed that the Reparations Conference had broken down) had fallen as low as 40.8 per cent, has risen to around 60 per cent.

Similarly the position of the Bank of Netherlands has improved since the advance in the discount rate to 5½ per cent in March. The gold reserve is slightly higher than at any previous time in the past three years, while holdings of foreign bills, which were experiencing a heavy shrinkage before the bank rate was raised, have recovered the greater part of the loss sustained at that time. The French market continues in a class by itself, by reason of the vast holdings of foreign exchange by the Bank of France, which is in a position to profoundly influence other markets rather than be affected by them.

Nevertheless, while it is true that the leading continental markets are in an easier position than London at the moment, they are still sensitive to changes at the latter center, and it is by no means certain that a rise in the British bank rate would not be the forerunner of corresponding advances on the Continent, as was the case last Winter and Spring.

United States Government Finances

During the month a brief report on the Government's finances was published covering the fiscal year ended June 30, 1929, which showed a surplus of receipts over expenditures amounting to $185,000,000 and a reduction in the public debt of $673,000,000. Only a few months ago there was talk outside of the Treasury of a possible deficit, but tax collections in the March and June quarters were much larger than expected and resulted in this substantial surplus.

In his review of Treasury operations during the past year Secretary Mellon refers to the state of the nation's finances as being "highly satisfactory," and the term is amply justified by the detailed records of receipts and disbursements and reduction in the public debt as well. Such a favorable situation has naturally suggested the possibility of another tax cut this year, but before that can be given serious consideration it is important to recognize that the favorable turn in last year's finances was due mainly to an unexpected increase of taxable individual income, notably swelled by stock market profits in 1928.

Even including the tax on these security profits, which are not of a nature that can be depended upon to recur every year, the total ordinary receipts of the Treasury were approximately $9,000,000 less than in the previous year. Against a gain of $157,000,000 in total income tax collections and $33,000,000 in customs duties, there was a decline of $149,000,000 as compared with the preceding year in repayments of railroad obligations to the Government, which by this time have been largely liquidated, also a decrease of $14,000,000 in miscellaneous internal revenue, and of $36,000,000 in other receipts. In the Revenue Act of 1928 the tax rate on corporations was reduced from 13½ to 12 per cent, but practically all of the loss occasioned by the reduced rate was made up by increased income due to greater prosperity. Customs duties were larger than in 1928 because of the increase in imports that tends to occur in anticipation of a higher tariff. Of the miscellaneous internal revenues, there was a loss of about $45,000,000 from the repeal of the excise tax on automobiles and a loss of $12,000,000 from increased exemptions to the amusement tax, while tobacco taxes gained $40,000,000 and

stamp taxes (principally on stock transfers) gained $16,000,000.

But for the unexpectedly large gain in individual income taxes last year the threatened deficit would have become actual, for as against this $9,000,000 decline in total revenues there was a rise of $204,000,000 in expenditures above the preceding year, and the budget was exceeded by $54,000,000. This side of the picture, therefore, does not appear so satisfactory. Post Office expenditures payable from the Treasury increased $105,000,000 over 1928, $52,000,000 of which was for the settlement of back pay on railway mail contracts, while internal revenue refunds increased $42,000,000, naval expenditures increased $30,000,000, flood relief and control expenditures were $30,000,000, contributions for the first year of the Civil Service Retirement Fund required $20,000,000, and Veterans Bureau expenditures increased $16,000,000. Offsetting these major increases, there was a decrease in interest charges on the public debt of $53,000,000, and $50,000,000 paid for war claims in 1928.

Grand total of Federal expenditures chargeable against ordinary receipts last year came to $3,848,000,000, while total ordinary receipts were $4,033,000,000, leaving a surplus of $185,000,000 while in the preceding year the surplus was $399,000,000. These figures embrace all the "ordinary" transactions of the Treasury, but include only the net loss on Post Office receipts and expenditures, and do not include public debt retirements from surplus.

The Public Debt

The reduction of $673,000,000 in the public debt last year brings the total outstanding debt to slightly below $17,000,000,000 and represents a reduction of $9,663,000,000 from its high point that occurred in August, 1919. Of the amount retired during the past year $549,000,000 is to be attributed to the sinking fund and other debt retirements chargeable against ordinary receipts, and $124,000,000 to the surplus of receipts over expenditures. Total interest payments during the year amounted to $678,000,000 and sound public policy demands that the government adhere to this program of cutting down indebtedness and interest charges. Before our entrance into the World War this country had a national debt of less than $1,300,000,000.

The question of future retirement of public debt, and possible tax reduction as well, must take into consideration a number of factors, including the possibility of a falling off of income tax receipts from the unexpectedly high 1929 returns, and a small increase in the appropriations for 1930 and prior years, combined with the $500,000,000 fund recently authorized for farm relief.

Ratification of the French agreement, on which we are commenting in later paragraphs, practically completes the refunding of the obligations owed by foreign governments to the United States, which now amount to approximately $11,825,000,000 including accrued interest, the only large debt that has not been refunded being that of $193,000,000 by Russia. During the last fiscal year the Treasury received from foreign governments, principally Great Britain, $39,000,000 on account of principal and $160,000,000 interest, and income from this source should increase somewhat in the future. For the fiscal year 1930 the total receipts from this source are estimated at $220,000,000 and by 1940 will be approximately $340,000,000. According to law, payments from foreign governments on account of principal must be used to retire Government bonds whose sale provided funds for the advances, and payments of either principal or interest may be made in bonds at par.

Money market conditions have caused the current rate of interest paid out on the public debt to turn upward after having been successively reduced each year for nearly a decade. In the 1929 fiscal year the average rate was 3.8999 per cent, as against 4.29 per cent in 1921, but the Treasury's program of refunding bonds that were maturing or had been called for redemption into lower coupon issues has been halted for the time being. On the June offering of Treasury Certificates a rate of 5⅛ per cent was fixed, the highest since 1921. Tightness of the money market has been reflected also in the prices of outstanding government bonds, which are down near the year's low level and represent declines of as much as four points in a few months. As a result of the weak market the government was enabled to repurchase during July more than $100,000,000 in bonds for sinking fund purposes at a discount, including about $75,000,000 of Series A, 1930-32 maturities bought direct from holders at 98.

New Method of Treasury Borrowing

A new plan of Treasury finance has recently been adopted, consisting of non-interest bearing short term Treasury Bills to be sold at a discount in whatever amounts and at such times as may be needed. It is not proposed that these new obligations shall take the place of long-term United States bonds nor of short-term Certificates of Indebtedness, but rather that they will supplement the present system and make Treasury operations more flexible and economical. Legislation previously in force specified that government obligations should not be issued at less than par, while the new plan amends this provision to allow Treasury Bills to be offered at under par on a competitive basis. A measure to accomplish this end, known as the Hawley-Smoot bill, was signed by the President on June 17, 1929.

Several advantages of the new form of obligation were summarized by Secretary Mellon as follows:

1. Competitive bidding for these bills should enable the Treasury to get the lowest discount rates consistent with current market conditions.
2. The sale of these securities could be timed to coincide almost exactly with the need for funds, thus saving the interest on money borrowed ahead of requirements.
3. Maturities could be timed to correspond closely to the actual collection of income taxes and not all made to fall on the nominal date of tax payments, as at present.
4. They would enable the Treasury to take advantage of periods of seasonal ease for the sale of Treasury bills rather than, as sometimes occurs, compel the Treasury to offer a large issue of securities during a period of temporary stringency and high money rates.
5. The banks and the investing public would be furnished with a new instrument for the investing of temporary surplus funds, with frequent and convenient maturities.
6. They would not be subjected to the same pressure as our present certificates, which are frequently immediately resold at less than par with damage to the Government's credit.

Banks and other investors who might trade in these Treasury Bills will recognize an additional appeal, in that the elements of interest and price are combined, the same as when trading in bankers' acceptances, thus simplifying the calculation, settlement and recording of any transaction.

Increase in the 1930 Budget

As an offset to the increase in revenue due to receipts from foreign governments, it seems fairly certain that since the war the cost of operating the government has been cut down about as low as is feasible, and that the upward trend of the past two years will continue. Some months ago the Bureau of the Budget estimated total expenditures for the current fiscal year ending June 30, 1930, at approximately $3,780,000,000 and estimated the probable surplus at $60,000,000. If this surplus were actually realized it would be the smallest for any year since 1916, not including the war years of 1917, 1918 and 1919 when deficits occurred.

A calculation just submitted to the President of anticipated expenditures for the Army, Navy, Post Office and Public Works indicates that in the years 1930 to 1933 these four major departments will require at least $100,000,000 more annually than was spent in the past year. In addition emergencies are likely to arise that will swell the total materially, such as the decision to indemnify the fruit growers of Florida for fruit and trees destroyed to combat the Mediterranean fruit fly.

Farm relief legislation carried an authorization of a fund of $500,000,000, of which $150,000,000 has been appropriated. Since government accounting is not handled on a "balance sheet" basis, all payments out of this fund would have to be treated as "ordinary expenditures," the same as were the advances made to railroads a few years ago. Moreover, there is no assurance as to when it will be repaid, nor as to what charge-offs might have to be made in case loans to "stabilization corporations" result in losses. When Congress convenes later this month there will be revised budget figures available, and consideration must be given to raising funds to provide for the farm relief and other additional appropriations.

Total governmental expenditures for any particular year may be calculated with a fair degree of accuracy, even though revisions in the budget are necessary from time to time because of special legislation such as the above. Probable revenues, however, are much more difficult to estimate for the reason that they depend on business conditions that are constantly changing. Since the Treasury has become mainly dependent upon income taxes, its revenues tend to fluctuate with the income of corporations and individuals. This in turn is subject to such influences as activity in the various lines of production and distribution, commodity price movements, trading on the stock exchanges, etc.

Because of these numerous uncertainties in probable revenues and expenditures, the Treasury must plan on a margin to allow for contingencies, and it has been said that based on past experience this expected surplus should be not less than $100,000,000 annually, which would represent only 1½ per cent on the $4,000,000,000 turnover. The public is extremely interested in any possibilities of further tax reduction, but anyone who has followed even in a general way the course of the nation's finances will see that it would be unwise to cut taxes to the point of causing a deficit in the event of a moderate recession in business, and then have to increase taxes. A sound program would provide for a safe margin each year which, if actually realized, could be applied to further liquidate the national indebtedness and reduce interest charges.

Ratification of the French Debt Agreement

The Chamber of Deputies of France ratified the Mellon-Berenger agreement on July 21 by a vote of 300 to 292, and the Senate on the 26th inst., by a vote of 242 to 30. The crisis was passed in the Chamber, where the large negative vote was significant of a demand for a qualifying clause to the effect that the agreement was subject to modification in case reparation payments are not received by France according to the terms of the new agreement, not yet ratified by the nations concerned. The French Government opposed any qualifying conditions attached to the settlement agreement, but made no objection to a separate resolution of similar import. Undoubtedly public sentiment in France has been

very strong upon the point that the undertaking to pay the United States according to the agreement should be based definitely upon the reparations agreement and stand or fall with that.

The opposition, therefore, objected to a vote on the Mellon-Berenger agreement until after the new reparations agreement had become effective, but immediate action was necessary on account of the commercial debt of $407,000,000 to the United States, which is falling due on August 1 and could not be postponed without action by the Congress of the United States. The Congress was not in session, but had previously taken action authorizing postponement in case the Mellon-Berenger agreement was ratified. The agreement includes the $407,000,000 debt in the general settlement. This phase of the situation afforded a strong practical argument in support of the Government's appeal for ratification.

The wish to link the agreement with the United States with the reparations agreement has represented not only a genuine feeling that the payments to the United States would be unduly heavy unless supported by reparation payments, but a natural desire to have the United States interested in the maintenance of the reparation payments without further revision. On the other hand, the United States Government has consistently declined to have any part in reparation agreements or to condition its own settlements upon them. This is in harmony with the condition upon which the loans were made that the United States would look to each debtor for payment of its borrowings and the traditional American policy of keeping as clear as possible of the relations between European countries.

Terms of Settlement

As determined in the agreement, the principal of the debt, as of June 15, 1925, was $4,025,386,686.89, but a payment of $386,686.89 was made, bringing it down to $4,025,000,000. This includes interest at 4¼ per cent on the original sums to December 15, 1922, and at 3 per cent from that date, to June 15, 1925. From this date to June 15, 1930, the payments include no interest. Thereafter for the first ten years the rate is 1 per cent, for the next ten years 2 per cent, for the following eight years 2½ per cent, for the succeeding seven years 3 per cent, and for the remaining twenty-two years 3½ per cent. The average rate of interest over the period is 1.64 per cent.

The settlement contemplates liquidation of the debt in sixty-two years, by payments in the aggregate of $2,822,674,104.17 of interest in addition to the principal, the grand aggregate sum being $6,847,674,104.17. Payments of interest and principal are included in a series of annuities, rising to the maximum as follows:

1926	$30,000,000	1935	$ 80,000,000
1927	30,000,000	1936	90,000,000
1928	32,500,000	1937	100,000,000
1929	32,500,000	1938	108,000,000
1930	35,000,000	1939	110,000,000
1931	40,000,000	1940	115,000,000
1932	50,000,000	1941	120,000,000
1933	60,000,000	1942	125,000,000
1934	75,000,000		

The payments continue at $125,000,000 per year until 1986, and the final payment in 1987 is for $117,674,104.17. In a debt running over such a long period of years interest is more important than principal. The present value of this settlement at the time it was made, reckoning interest at 5 per cent (the original rate of the loans) was $1,681,369,000 or 39.7 per cent of the amount due on June 15, 1925. An approximately equivalent settlement might have been reached by cancelling all of the advances made during the war period, and calculating full interest upon the advances made after the armistice.

Differing Views of Two Peoples

In the ratification of the Mellon-Berenger agreement France has acted from a high sense of honor and doubtless with confidence that in the event of the payments proving impossible, or unbearably oppressive, the people of the United States will not be wanting in friendly and reasonable consideration. The French people have passed through deep waters and when account is taken of all their burdens and problems it is not strange that they have been staggered by the sum total of the obligations confronting them. President Hoover in his statement upon the settlement has very properly said that it was always certain that the French people would go to the limit of their ability to meet their obligations. They have had their own view, naturally, of their proper share of the costs of the Great War, and their own view of the share that should be borne by the United States. The great mass of the people of this country have had a very different view of their own relations to the war. They saw it from afar, and many of them today are not clear how this country came to be involved in it. The viewpoints of the two peoples have been so different that they could not see the conditions alike, and this, rather than any fundamental difference in character or principles, has been the explanation of the conflicting views concerning the indebtedness. This is as much as to say that either side in the position of the other would have held the other's view. There are many people in the United States who would have been glad to have seen their Government more nearly meet the views of the French people, but the settlement necessarily was in the hands of the Con-

gress, and the Congress, necessarily and properly, is representative of public opinion throughout the length and breadth of the land. The settlement has been achieved between two great democracies, working through their accustomed agencies, and not through any privileged parties who had interests of their own to serve. Whatever dissatisfaction there may be on either side, this is something to consider.

International Movements of Capital

It is likely that the payments are more formidable in the aggregate than they will prove to be in detail. The world is getting used to large figures in international transactions, and while nobody can demonstrate to a certainty how such large undertakings as the reparations and inter-allied debt payments will work out in the long run, it is evident that the vast supply of liquid capital in international markets tends to maintain the equilibrium. The fear that a debtor country will be denuded of capital has been found to be groundless. Notwithstanding payments of large sums, capital does not, on balance, leave a debtor country in such amounts. The most notable financial phenomenon in recent years has been the great movement of capital into France since 1926, accomplished without serious disturbance of the markets from which it has been taken. Indeed, for the most part it has not been withdrawn from other markets, although made available in Paris. By the use of international credit it has been made useful in more than one market at the same time.

Another significant phenomenon has been the movement of private capital into Germany from neutral and creditor countries faster than it has been paid out on account of reparations, much of it coming from the countries receiving reparations. Wealth cannot be heaped up in one country or a few countries to the exclusion of other countries, provided the other countries have credit and can make profitable use of capital. This is the principle which governs the movements of capital in the long run, regardless of reparations, debts or the location of ownership. It is said, of course, that interest must be paid on borrowed capital, but interest payments are mingled in the general movements of capital, and the fundamental fact is that a country does not lose capital, on balance, until it becomes relatively cheap.

Moreover, it is the country in which capital is employed, rather than the one in which it is owned, which has the active benefits of it. Holdings of the bonds or stocks of industrial enterprises are not to be compared with possession of the enterprises themselves, with their continuing disbursements on account of operations. The latter support the life of the country, while interest and dividend payments represent liquid capital which may float around the world and never reach the country of ownership.

M. Caillaux, several times Minister of Finance in the French Cabinet, supporting ratification in the Senate, referred to "the historic rule that countries in which a foreigner has invested his money always buy out the investors within a generation." France, despite her war debts, bids fair to be soon established permanently as a creditor country, losing more by the voluntary investments of her citizens abroad than by her payments on the war debts.

M. Caillaux predicted that within sixty-two years the sums of indebtedness now owing on account of the war would seem as small as the German indemnity of 1870 now appears, and that within ten years the whole debts and reparations issue would be solved automatically by a chain of events in which the Young plan would be only a link. There is good reason for accepting this prophecy.

The Tariff Revision

The idea of a sliding scale of sugar duties as a compromise of the present controversy over them has met with considerable favor in Washington and news reports say that hearings will be reopened for the purpose of taking testimony upon this proposal. The course of sugar prices since the middle of June illustrates the argument for a sliding scale.

It should be understood to begin with that sugar prices are abnormally low all over the world, due to a general increase of production. The low spot price this year for Cuban raws, in New York harbor, before payment of duty, was made on June 11 at 1.69 cents per lb., which would make the cost, including duty, approximately 3.45 cents. Since then the outlook for sugar has undergone some improvement. Consumption is increasing both in this country and Europe, and reports upon the crop in Java, where the harvest is under way, have indicated a smaller increase in production than had been looked for this year. If there shall be no further increase of production, the growth of consumption will gradually restore the industry to normal conditions. As a result of a more hopeful feeling, the price of sugar has made a substantial recovery. The spot figure for Cuban raws, pre-duty, in the last week of July has been about 2.12, which represents a gain of .43 of a cent from the June low point. This means that a duty of 1.97 cents per lb. would now be as effective against foreign competition as 2.40 cents would have been on June 11. Furthermore, if and when the world price of sugar reaches a level which according to past experience is considered normal, the present duty of 1.76 cents per lb. will be amply protective to the domestic producers, according to the findings of the Tariff Commission.

It is quite possible that the low prices for sugar which prevailed in June may not be reached again for many years, but if the duty should be definitely fixed on the basis of those prices, every increase in the world price would represent additional clear profit to domestic producers, at the expense of course of consumers.

The Real Issue

The real issue at last is over the end sought to be accomplished by the sugar tariff. If the purpose is to make the price high enough to induce expansion of the industry to supply the entire domestic consumption, or to spread the industry generally over the country, there is no reason why the opponents of that policy should compromise on a sliding scale adapted to that purpose. The objections to such expansion are that it would (1) involve a loss of revenue to the Government, (2) impose high prices upon a common article of necessary use, (3) divert capital, labor and farming lands from other employments more advantageous to the country.

The sugar tariff originally was a revenue tariff, and in the past has yielded large sums to the Treasury, at the same time affording shelter to beet sugar production in the mountain states of the West, where freight charges on imported sugar afforded additional protection and the industry in various respects was well suited to the environment. As a revenue tariff at a moderate rate it has a rational basis, and nobody has grudged the loss of revenue resulting from a limited production west of the Missouri River to serve the needs of that region. Its establishment there under duties long maintained may be deemed to have established a fair claim to a continuance of moderate duties, but a proposal to increase the duties and encourage large additional investments, presents a different situation. The substitution of home production for imports would eliminate the revenue feature, and raise a permanent question as to the economic value of the industry.

The expansion of the industry has been urged chiefly for the benefit of agriculture. Mr. Ogg, an official of the American Farm Bureau Federation, speaking for that organization before the Senate Committee June 26, stated that the amount of our sugar imports last year, if produced in this country would require the use of 3,000,000 acres of land. The total number of acres in crops in 1925 according to the farm census of that year, was 391,460,000. Thus as a factor in crop diversification sugar beets are negligible, and while only a comparatively small number of farmers ever would produce them, all farmers and all other people would pay higher prices for sugar. Furthermore, after imports of sugar were eliminated there would be no better returns to farmers on the beet sugar crop than on other crops, for price protection depends on imports over a duty. Once the country was self-supporting, prices would be fixed by domestic competition, as in the case of corn.

The essential fact is that since other crops pay better, farmers will not grow sugar beets unless subsidized to do so at the expense of consumers. The industry is unsuited to the climatic and labor conditions of this country. It is largely a hand-labor crop, while this is a country of machine production. It is thoughtless imitation to grow beets for sugar in the United States because it is done in Europe. We can better afford to obtain our sugar supply in countries where it is a natural product, by selling the products of our machine-using industries.

All of the arguments in support of the artificial promotion of this industry assume that it will increase the aggregate volume of business in the country, which is not true. It will only draw capital and labor from more advantageous employments. There is no lack of employment for capital and labor in this country. Our immigration law has reduced the influx of foreign-born laborers to less than enough to replace the natural diminishment of that element in the population, and the new supply of native-born population never will weed beets. The course of interest rates tells the story of increasing demands for capital. This country does not need to foster industries of the beet sugar type—anyway, not to the extent of taking a toll on every breakfast, dinner and supper in this country.

The Competition of the Tropics

It is claimed that protection in the production of our own sugar is justified by the fact that competition comes from the tropics, where the people have lower wages and a lower standard of living, but the people of the tropics will not compete with us if we do not compete with them in the production which naturally belongs to them. They are doing the work which has belonged to them from the beginning of sugar history, and which by reason of natural conditions can be done there at lower cost than in this country. They will exchange a product which they can produce more advantageously than we for products which we can produce more advantageously than they. This is the basis of all trade.

The people of the American tropics would like to earn higher wages and to have a higher standard of living, but the industrial development of those countries is behind the state of development existing in this country. Owing to lack of capital and industrial experience the variety of industries is limited, the demand for labor limited, the efficiency of labor is low, and this is the explanation of low wages.

There is no need to exclude their comparatively few products from the markets of the United States on the ground that they are a menace to our prosperity. Their hopes for industrial development, for more employment, higher wages, better social conditions and a larger place in the world circle of industry and trade are based primarily upon the possibilities of better trade relations with the United States.

Industry in this country is on another level. It is widely diversified, highly organized and supplied with an effective capital equipment, with the result that we can trade products with the tropical countries on the basis of one man's labor in the United States to five to ten men's labor in the tropics, and the trade is advantageous to both sides. This is cooperation instead of competition, each country making the most of its own resources by trading with the other. These people want our wheat flour, meats, dairy products, cotton goods, clothing, shoes, gramophones, moving pictures, automobiles, railroad cars, and the products of our industries, as fast as they can create purchasing power in our markets to buy them, and the only way they can create purchasing power is by sending us their products. Their entrance to our markets means a wider area of trade, a more diversified trade and a more intensive and economical use of the natural resources of our own country and the countries of Latin America.

Mr. Rudolph Spreckles, member of the well-known sugar family, before the Senate Committee, testified that he sold out of the sugar business at the time of the Spanish-American war because he thought the United States was going to annex Cuba. If that had been done, all of this controversy would have been averted. The economic system of the United States would have included Cuba, and the production of sugar would have developed naturally, under the control of economic conditions, to the advantage of all concerned. It would have been a further enlargement of our economic area, the extent and diversity of which in the opinion of good judges is the principal explanation of our surpassing prosperity. If conceivably the Dominion of Canada, also, with its wealth of natural resources, might have come into the merger, the area of territory and diversity of products would have been greatly increased, and the advantages of unobstructed trade relations would have been still more pronounced. This is not to say that such a political merger was possible or ever would be desirable, but simply for the purpose of emphasizing that to a great extent the economic gains of such a community of interests would be possible without a political merger. Trade areas are not necessarily the same as political areas. The people of Cuba wanted to govern themselves and the people of this country rightly agreed that they should do so, but laying aside for the moment all but economic considerations, it cannot be doubted that if Cuba had become a part of the United States the increase in the purchasing power of her people would have been worth far more to every section of the United States than any loss of development in the sugar industry, and the lower cost of sugar to our own people would have signified additional purchasing power for every family.

If any one economical principle is settled beyond controversy it is that nations of differing resources and industrial conditions gain by trade. The principle is that of specialized industry, which is most highly developed in the United States. The skilled worker of the United States does not want a common labor job, and there is a loss of productive power in diverting the labor of this country to such work as the hand cultivation of beets. The principle of this division of labor is the same, whether operating in domestic trade or between this country and an island one hundred miles from our shore.

The Fear of Monopoly

The fear of monopoly may be truly said to be the beginning of folly. Witness after witness before the Committees of Congress, whether obsessed by his own imaginings or seeking to play upon the popular weakness for bugaboos, has sounded a warning that if Cuba furnished the entire supply of sugar for the United States the people of this country would be at the mercy of the sugar-growers of Cuba. In the first place, as we have repeatedly said, nobody is proposing to extinguish the existing sugar industry of the United States. The country always has maintained a duty for revenue purposes, and nearly all countries do so. In the second place, Cuba produces less than 20 per cent of the sugar crop of the world. Sugar is produced in many countries and any attempt on the part of Cuba to raise selling prices would affect the price of sugar all over the world, and promptly increase production all over the world. There is not as much chance for Cuba to impose extortionate prices for sugar upon the United States as there is for the cotton growers of this country to impose extortionate prices for cotton upon the people of this and other countries, for this country produces a larger share of the world's crop of cotton than Cuba does of the world's crop of sugar.

The high price of sugar in 1920, to which reference is always made was due to the extraordinary situation in the sugar industry resulting from the war. The beet sugar industry of Europe had been to a great extent wiped out. After the armistice the reviving demand

for sugar was thought for a time to exceed the world supply, and reports of shortage developed a scramble for sugar which bordered on a panic. Sugar dealers, wholesale and retail, attempted to accumulate reserves, and even family buying took on speculative proportions. This demand confirmed the fear of scarcity. Excited buyers ran up prices on each other. It is a noteworthy circumstance that the frantic operations of dealers in this country resulted in imports in the year 1920 from forty-six countries. Other peoples chose to go without sugar in order to supply the demands of this market and consumption even in this country was heavily curtailed, with the result that there proved to be more sugar available than anybody had thought, and the price soon collapsed.

The price of sugar was controlled by the United States Government during 1919, the fixed price being 7.28 cents per pound, duty paid. Decontrol occurred on December 31, 1919, and prices advanced promptly with a range of 10 to 13.50 cents per pound to the end of March, 1920. In April the scare developed sharply, the price at the end of the month touched 19.56 cents and on May 19 reached 23.57, the high point of the year. By the end of September the price was down under 10 cents and in December touched 4.63, the low point of 1920. The big swing of the movement, up and down, occurred within a period of four months.

To sum up, sugar went up in 1920 for the same reason that wheat has been going up in the last two months, to-wit, apprehensions of shortage. Any other interpretation is simply an attempt, nine years afterward, to read into the situation something that never was there. Sugar responds to the same influences as wheat, cotton, corn and all other commodities.

The Doctrine of Protection

The doctrine of protection as taught by the founders of the system is misrepresented by attempts to apply tariffs indiscriminately. The founders sought to promote a broad industrial development, based on the abundant natural resources of the country. They thought the country should not import goods for which the raw materials existed in the country, but that capital and labor should be encouraged to come and produce goods here. They sought to promote such development by a tariff policy, and this is the essence of the policy which has so strong a hold on the country. It need not exclude mutually advantageous trade with other countries, based upon differences in climate, natural resources or economic development.

We welcome labor-saving inventions, because they enable labor to increase the production of all the comforts of life. Capable managers of business invest capital freely to save expenses in production, reduce prices and sell more goods. We take every possible advantage of specialization in industry. Why not save labor by foreign trade where differences in the conditions affecting production enable it to be done? It does not mean less production in this country in the aggregate, but concentration upon the most profitable production.

Much of the argument offered against the protective tariff is based upon the false assumption that the protected industries make undue profits. The protected industries are open to everybody, and domestic competition determines the general level of profits. It is not true as a rule that industries working under tariff protection make larger profits than industries whose products do not figure in the tariff schedules; on the contrary, the best chance for profits is in industries which are able to compete in the markets of the world. The matter of concern in tariff-making is not that protected industries may make too much money, for competition will take care of that, but that duties may not be so applied as to direct enterprise into lines of business unprofitable to the country, or by arbitrary interference with trade relations handicap the very industries which have the greatest possibilities of growth. An example of the latter is afforded by the position of the automobile industry.

The Automobile Industry

An incident of this tariff revision has been the action of the Senate Committee in questioning the heads of leading automobile companies as to their attitude toward a reduction of the duty on automobiles, or complete removal thereof, subject to countervailing duties against countries which maintain duties on American cars. Mr. Ford replied that he favored complete removal without regard to the policies of other countries. Others said that they would offer no objection to a reduction of the duty, but suggested that 10 per cent be retained as a safeguard. The American automobile dominates all markets in which it is received on equal terms, and including the tire industry contributed in 1928 about $561,000,000 to the exports of the United States, or approximately 10.9 per cent of the total.

The automobile industry is a very important industry to this country, and although it is independent of tariff protection its position in world trade is entitled to consideration in all the details of tariff-making. Its position is affected by every rate which tends to raise the level of industrial costs in this country, either by increasing the general costs of living or the direct cost of materials entering into automobiles. If the tariff policy of this coun-

try provokes retaliatory legislation by other countries, automobiles are likely to be one of the first of our exports to suffer. The automobile companies may protect their foreign business against hostile action of this kind, and against rising costs in this country, by having factories in other countries, but to the extent that they are compelled to resort to this policy the industry is lost to this country. The automobile exports, and other exports which may be lost in like manner, are worth protecting in so far as it can be accomplished by the maintenance of fair and reasonable trade relations. They represent the class of industries which have the largest possibilities of development, and certainly care should be exercised not to injure this class in efforts to give aid elsewhere of perhaps insignificant importance.

Expansion in World Shipping

Revival of the world shipbuilding industry, referred to in our July bulletin, has been called to the attention of the general public in rather dramatic fashion by the establishment of a new time record for trans-Atlantic crossings by the "S.S. Bremen" of the North German Lloyd. On her maiden voyage this steamship made the trip from Cherbourg to New York in 4 days, 17 hours and 42 minutes, cutting nearly nine hours from the previous record. In shipping circles the accomplishment was hailed as signifying the recovery of Germany to the rank held among the great nations before the war, but there are indications that the record of the "Bremen" will be challenged by other lines which have palatial liners under construction, including the Cunard and White Star of Great Britain, the French Line, Italian Line and United States Lines, Inc. In a letter to the New York Times dated July 30, D. W. Niven, Manager of the Federal Marine Department of the General Electric Company, discusses the advantages of the geared turbine, as installed on the "Bremen," and the turbine-electric drive as used on numerous American ships, concluding that "it is practical from an engineering point of view for this country to place in service super-transatlantic liners which, if they are equipped with turbine-electric machinery, can far exceed any performance made to date."

The marked recovery of world shipping since the depression after the war can be seen from the tonnage record in Lloyd's Register for 1929-30 which has just been published. In the following table we are giving the latest summary for steam and motor tonnage (which make up about 98 per cent of the total), together with comparative figures of 1914 and 1920:

Steam and Motor Ship Tonnage of the World
(In thousands of gross tons)

	1914	1920	1929
Great Britain and Ireland	18,892	18,330	20,046
British Dominion	1,632	2,252	2,795
Denmark	770	803	1,033
France	1,922	3,245	3,303
Germany	5,135	673	4,058
Greece	821	530	1,267
Holland	1,472	1,793	2,932
Italy	1,430	2,242	3,215
Japan	1,708	2,996	4,187
Norway	1,957	2,219	3,218
Spain	884	997	1,136
Sweden	1,015	1,073	1,480
United States (sea)	2,027	16,049	11,036
United States (lakes)	2,260		2,451
Other Countries	3,479	1,971	4,251
Total	45,404	55,173	66,408

Before the war Germany ranked second only to Great Britain, but practically all of its tonnage that was not sunk was transferred to the Allied countries. An aggressive program of new ship construction since then has increased tonnage from 673,000 gross tons in 1920 to 4,058,000 at the present time and brought Germany to fourth rank in merchant tonnage, being exceeded only by Great Britain, the United States and Japan. If measured in actual efficiency instead of gross tonnage, the German fleet would rank third, for a large part of the theoretical tonnage of other nations is made up of vessels under 5,000 tons, wooden ships, inland waterways craft and other types that are so obsolete as to lack the speed and economy required for competition in world trade today.

Addition of so many new ships to the fleets of the principal powers is not due to any lack of cargo space, for there has been a surplus of ships for several years and freight rates are so low that many companies cannot operate at a profit. For a trade that involves such risks the return yielded to investors is very moderate, as illustrated by the following analysis that has just been made of the statements of leading shipping companies in England:

> Dividends paid on the common shares of 17 liner and cargo liner companies with a total share capital of £47,414,206, including such companies as Cunard, Royal Mail, Oceanic Steam Navigation, etc., represent only 5.38 per cent on capital. If reserves of £10,893,779 are added the return is only 4.37 per cent. The position of cargo boat companies is worse. Dividends paid on common shares of 29 companies with total capital of £8,918,464 averaged 5.14 per cent. Including reserves of £5,059,994 the return is reduced to 3.28 per cent.
>
> The position is, however, really worse than that disclosed by these figures as adequate allowance for depreciation has not in all cases been made. Out of the 29 cargo boat companies ten have not set aside anything for depreciation, five do not disclose the amount appropriated, and nine transfer less than 5 per cent on cost. It is doubtful even if all the liner companies have reduced the book value of their fleets so that they stand at the accepted basis of valuation of today's cost, less 5 per cent per annum. In some cases ships have not earned sufficient to meet depreciation, and dividends have been paid out of interest on investments.

Such a subnormal return means that the world needs better ships, not more ships. In

other industries as for example, steel, the same situation may be found where despite an apparent state of excess capacity for the industry as a whole, individual companies are constantly expanding plant facilities in order to improve methods and lower costs. There will always be passengers and cargoes for the newer, larger and faster ships, even though there is not enough business to go around. Many nations are striving to build up a merchant marine for carrying a major portion of their own trade and also for national defense, but if subsidies and other artificial assistance granted for this purpose should stimulate new construction too largely in excess of what would be justified on a free competitive basis, there is danger that the entire shipping industry will become depressed as a result.

The Fruit Fly Pest

The policy of the United States in attempting to maintain strict quarantine regulations against the admission of certain fruits from certain countries, on account of the known presence of insect pests in those countries, has been amply justified by the discovery of the Mediterranean fly in Florida. The Department of Agriculture has been informed about the ravages of this pest for many years and has been on guard against its appearance. Its efforts to enforce the quarantine have been a subject of complaint by several Governments, and foreign newspapers have alleged that the policy was prompted by the purpose of keeping competing fruits out of the markets of this country. The Government of Spain a few years ago objected to the application of the quarantine to Almeria grapes, on the ground that they did not carry the fly, but we believe it was satisfied upon this point afterward. The prompt action of the United States Government and of several state governments to stop the spread of the fly in this country is proof of the genuine intent of the quarantine policy.

The same applies to the attitude of the United States Government against the admission of cattle from countries where the foot and mouth disease is known to exist. The cattle industry and the agriculture and horticulture of this country are of vast importance, and the Government is prompt to expend large sums for the eradication of any disease or insect pest which menaces them. Obviously it is justified in protecting them against such dangers from outside.

In 1918 the Department of Agriculture issued Bulletin 640, giving warning against the Mediterranean Fruit Fly, which it pronounced "one of the worst enemies of fruit grown in tropical or semi-tropical countries," and stated that once established in the semi-tropical fruit-growing sections of the United States, it probably would be a permanent pest. A quarantine against infested regions existed at that time and has been maintained ever since.

The Mediterranean fruit fly is a cosmopolitan pest, well known to science for upward of 100 years, and generally present in the South of Europe. It appeared in Australia in 1897 and from there reached Hawaii in 1910. It has put a serious check upon the horticultural development of the Hawaiian Islands, but fortunately does not attack the pineapple, which is the leading fruit exported from the Islands. Oranges and grapefruit, peaches, apples, figs, apricots, avocados, pears, plums, grapes, quinces, eggplant, tomatoes, squashes, pumpkins, gourds and beans of all kinds are attacked.

This insect was discovered in Florida last April, and how it got into the country is unknown. The State Plant Board promulgated a quarantine April 15, covering all of Orange and Seminole Counties, and part of Lake County, the district then known to be infested, and the Department of Agriculture at Washington immediately took steps to cooperate with the State authorities in a thorough campaign of eradication. An announcement by the Department states that it "considers the presence of the pest a serious menace to the entire fruit and vegetable industry of the United States, requiring emergency methods of control." The first request of aid from Congress is for the transfer of $4,250,000 of funds remaining of an appropriation for fighting the pink boll worm. Besides the cost of a tight quarantine and of a statewide inspection of all fruits and vegetables which may serve as hosts a large sum will be required to reimburse growers for the interference with their shipments and destruction of their crops. The plan is to literally starve out the invader, by destroying all forms of vegetable life upon which it lives. Obviously it is an undertaking in which the entire country is concerned, and therefore one in which the national government should take part.

The discovery of this pest and the announcement of the quarantine restrictions upon Florida coming before the State had completely regained its poise and command of resources after the series of bank failures which resulted from over-extension in the real estate boom, precipitated a new crisis. A wave of alarm swept over the State, causing a rush upon the banks which has forced the closing of about thirty in the past month, with several of the oldest banks in the State among them. Probably most of them will require only time to put themselves in condition for discharging their obligations, but the State has undergone a series of misfortunes which has put the strength of its institutions and the courage of its people to a severe test. That it will emerge from them successfully is not to be doubted.

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